Exhibit No.:	
Issues:	Financial Issues/ Investor Expectations/ Merger Costs/ Merger Premium
Witness:	Douglas W. Kimmelman
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Union Electric Co.
Case No.:	

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. EM-96-149

DIRECT TESTIMONY

OF

DOUGLAS W. KIMMELMAN

New York, New York
November 2, 1995

MISSOURI PUBLIC SERVICE COMMISSION

STATE OF MISSOURI

In the matter of the Application of Union Electric Company for an order authorizing: (1) certain merger transactions involving Union Electric Company; (2) the transfer of certain Assets, Real Estate, Leased Property, Easements and Contractual Agreements to Central Illinois Public Service Company; and (3) in connection therewith, certain other related transactions.	)	Case No.________

AFFIDAVIT OF DOUGLAS W. KIMMELMAN

STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

Douglas W. Kimmelman, being first duly sworn on his oath, states:

1. My name is Douglas W. Kimmelman. I am a Vice President at Goldman, Sachs & Co. in New York, New York.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony consisting of pages 1 through 6, inclusive, all of which testimony has been prepared in written form for introduction into evidence in the above-referenced docket.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

Doug W. Kimmelman

Douglas W. Kimmelman

Subscribed and sworn to before me this 1 day of November, 1995.

Erma Perrotto

Notary Public

ERMA PERROTTO
Notary Public, State of New York
No. 24-4688178
Qualified in Kings County
Commission Expires ~~March 30, 19~~
July 31, 1997

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DIRECT TESTIMONY

OF

DOUGLAS W. KIMMELMAN

MISSOURI PUBLIC SERVICE COMMISSION

Q. Please state your name and address.

A. My name is Douglas W. Kimmelman and my business address is 85 Broad Street, New York, New York 10004.

Q. What is your current occupation?

A. I am a Vice President at Goldman, Sachs & Co. in New York and am responsible for heading the firm's electric and gas utility practice within our Investment Banking Division.

Q. What has been your past work experience?

A. I have been with Goldman, Sachs & Co. since 1984 following my receiving a Masters in Business Administration from the Wharton School of Finance in that year.

I have worked for this entire period exclusively with electric and gas utilities with respect to financial advisories, debt and equity financings, mergers and acquisitions as well as other strategic advisories and restructurings. My work has included assignments for over 75 utilities, both domestically and internationally and has included the completion of over 200 financing transactions.

Q. What has been your work experience specifically related to utility mergers and pooling of interests transactions?

A. In addition to my overall responsibilities for our firm's utility business, I head up our utility mergers and acquisition activity. We have been involved in approximately 70% of the dollar volume of utility mergers and acquisitions occurring in the past 5 years, including Entergy/Gulf States, IE Industries/Iowa Southern, Northern States Power/Wisconsin Energy, Baltimore Gas and Electric/Potomac Electric and Union Electric/CIPSCO. Goldman Sachs, as a firm, has been the leading worldwide mergers and acquisitions advisor in 1995, having been involved year to date in approximately 130 transactions, valued at nearly $100 billion. Nearly all utility combinations are effected as a stock swap, and utilize the pooling of interests accounting method for the transaction. I am therefore quite familiar with the transaction structure utilized in the Union Electric/CIPSCO combination.

Q. With respect to the Union Electric/CIPSCO transaction, can you identify the various costs involved in consummating the combination?

A. There are three categories of costs associated with this transaction. Pre-merger transaction costs, estimated at $22 million, post-merger expenses, estimated at $19 million, and the merger premium of $232 million which was arrived at through extensive negotiations between Union Electric and CIPSCO.

Q. What is the merger premium and what is its relevance to both shareholders and ratepayers?

A. The merger premium is the value over the stock market valuation to be received by CIPSCO stockholders. On August 11, 1995, a premium of 23% to the stock market valuation of CIPSCO was negotiated between Union Electric and CIPSCO, with the assistance of their advisors. The dollar amount of this premium is $232 million.

Unlike a cash acquisition, the premium in a stock swap pooling of interests transaction is paid in the form of stock. New shares will be issued to CIPSCO shareholders in evidence of this premium. Clearly, the Ameren shareholders will expect a fair return on their investment so as to not dilute the value of their current holdings.

Q. What is the advantage of a stock swap or pooling transaction when compared to a cash acquisition?

A. A stock swap transaction is less costly than a cash acquisition as it does not leverage the company, is tax-free to shareholders, and does not involve the booking of goodwill which, when amortized, would serve to increase expenses. Nonetheless, the merger premium in a stock swap transaction is no less a real cost than such a premium in a cash acquisition. There is clearly a dilutive effect on the shareholders' investment if they are not allowed a return on the merger premium.

Without the merger premium, the CIPSCO shareholders would not be induced to enter into the combination, causing the merger-related savings to be permanently lost. The ratepayers therefore have an interest in seeing that a fair merger premium is arrived at so that the combination can move forward and so that the cost savings can be achieved.

Q. How does the 23% merger premium in this case compare to that paid in other utility mergers?

A. The merger premium in the Union Electric/CIPSCO transaction compares quite favorably to that paid in other comparable utility transactions. The following is a list of those transactions occurring in the electric utility sector since 1989 that involved a transaction between a smaller company and a larger company.

Combination	Merger Premium
Entergy/Gulf States Utilities	65%
Kansas Power & Light/Kansas Gas & Electric	62%
Cincinnati/PS Indiana	56%
PacifiCorp/Utah Power & Light	34%
IE Industries/Iowa Southern	23%
Baltimore Gas and Electric/Potomac Electric	21%

Q. What do shareholders typically expect about investments of capital by their companies?

A. Investors have a wide variety of investment options. For utility investors, there is a wide range of domestic investor-owned utility investments, international utility investments and alternative yield investments.

Investors expect the companies that they own to produce an overall competitive rate of return and implicitly expect that each project pursued by the company produces a fair equity return. Each project, including acquisition projects, should provide not only a return of the capital invested, but also a fair return on the invested amounts. Arguably, it is even more important for management to satisfy these expectations in a transaction such as the Union Electric-CIPSCO merger, rather than a typical capital expenditure in the ordinary course of business, due to the fact that this transaction is of a much higher profile and will be subject to greater scrutiny by the public.

Q. What happens if investor return expectations are not met?

A. Given that investors do have investment options, a sub-par total return performance or a portfolio of below average return projects will cause investors to withdraw capital from such a below-average performer.

A loss of investor confidence and the resulting retraction of capital will not only raise one's cost of attracting capital, but may also lead to difficulty in attracting capital for critical investment projects.

Q. What could happen in this particular instance if Union Electric/CIPSCO are not allowed recovery of their costs, the merger premium and

a sharing of the savings?

A. An insufficient return would cause dilution of the value of the shares of the shareholders. This could cause an increase in the cost of capital for the combining entities, as well as difficulty in attracting capital for future investment projects. As a regulatory policy, this would be counter-productive because it could result in forestalling cost savings which such future investment projects would make possible.

Q. What would be the effect on potential cost-saving mergers in the future if companies were not allowed to recover merger premiums?

A. It could have a chilling effect on future potential mergers.

Q. In your opinion, how can shareholders be treated fairly so as to avoid any of the potential adverse consequences you have discussed?

A. By allowing shareholder recovery of all costs related to the merger, including the premium, and a sharing of the net savings.

Q. Does this conclude your direct testimony?

A. Yes.